

### **Description of Changes to the Method of Calculating Residential Cost Impact due to the Installation of SCR at SJGS**

Three changes have been made to the rate payer impact study since the last presentation in 2010: 1) the capital costs have been updated; 2) the cost of capital has been updated; and 3) the methodology for allocating the costs to each rate class has been changed.

The current estimates of customer bill impact are based on the latest cost estimates of SCR and SNCR. The table below shows the comparison of the construction costs used in each study.

	SCR	SNCR
<b>Prior Study</b>		
Total Cost	\$633.5 M	\$66.1 M
PNM Share	\$297.4 M	\$31.0 M
<b>Current Study</b>		
Total Cost	\$748.1 M	\$73.8 M
PNM Share	\$369.7 M	\$34.5 M

The cost of capital used in the prior study was based on the cost of capital requested in the rate case filed in June 2010 ("June rate case") which included a return on equity of 11.75%. Whereas, the current study used the cost of capital agreed to in the stipulated settlement to the rate case ("stipulation") filed in February 2011 which used a return on equity of 10.25%.

In the prior study the costs of installing SCR or SNCR were allocated to each rate class (i.e., residential vs. commercial customer) based upon class revenue allocations contained in the June rate case. In the previous study, PNM had proposed allocating revenue among rate classes on an embedded cost basis. However, the current estimate allocates the revenue requirements based on the revenue allocation inherent in current rates since the class allocation methodology remains unchanged in the recently-filed stipulation. Therefore, each rate class is increased by the same percentage as the revenue requirements have increased.

The addition of SCR to the San Juan Plant is a significant investment for PNM rate payers. The value of PNM's total generation fleet is currently \$1,160M (as filed in the stipulation). The \$369.7M for the SCR technology at San Juan will increase the investment in generating facilities by more than 30% and will add no additional generating capability to the system.

**San Juan Generating Station  
Impact of BART Technology**

future test year included AFUDC  
move the cost of lost generation to fuel expense -  
first year only

	SNCR's - 100%				
	Unit 1	Unit 2	Unit 3	Unit 4	Total
Total Capital	17,048	17,048	21,220	21,220	76,536
Lost Generation	0	0	0	0	0
Net Capital	17,048	17,048	21,220	21,220	76,536
AFUDC	609	609	758	758	2,734
Construction Costs	16,439	16,439	20,462	20,462	73,802
O&M	1,922	1,922	2,792	2,792	9,428
Additional DBA	287	287	417	417	1,407
Lost Generation	0	0	0	0	0

	Sorbent Injection - 100%				
	Unit 1	Unit 2	Unit 3	Unit 4	Total
Total Capital	0	0	0	0	0
Lost Generation	0	0	0	0	0
Net Capital	0	0	0	0	0
AFUDC	0	0	0	0	0
Construction Costs	0	0	0	0	0
O&M	0	0	0	0	0

	Total - 100%				
	Unit 1	Unit 2	Unit 3	Unit 4	Total
Total Capital	17,048	17,048	21,220	21,220	76,536
Lost Generation	0	0	0	0	0
Net Capital	17,048	17,048	21,220	21,220	76,536
AFUDC	609	609	758	758	2,734
Construction Costs	16,439	16,439	20,462	20,462	73,802
O&M	2,209	2,209	3,209	3,209	10,835
Lost Generation	0	0	0	0	0
PNM Share	50.0%	50.0%	50.0%	38.5%	

	Total - PNM Share				
	Unit 1	Unit 2	Unit 3	Unit 4	Total
Total Capital	8,524	8,524	10,610	8,170	35,828
Lost Generation	0	0	0	0	0
Net Capital	8,524	8,524	10,610	8,170	35,828
AFUDC	305	305	379	292	1,280
Construction Costs	8,220	8,220	10,231	7,878	34,548
O&M	1,104	1,104	1,604	1,235	5,049
Lost Generation	0	0	0	0	0

	Unit 1	Unit 2	Unit 3	Unit 4	Total	
Return on Rate Base 8.56%	704	704	876	675	2,959	Use construction Cost
Tax Gross-up	287	287	357	275	1,206	
Return of Rate Base - 20 years	426	426	531	408	1,791	
Operating Expenses	1,104	1,104	1,604	1,235	5,049	
Revenue Requirement	2,621	2,621	3,368	2,593	11,004	

Total 2010 Annualized Revenue	724,231
Percent Increase In Revenue Requirement	1.5%

MWh in 2010	8,103,999
Incremental fuel cost	-
Increase Fuel Factor \$/kWh	-

	kWh	Revenue	% of Total Rev	Impact \$k	Impact \$/kWh	fuel Impact \$/kWh	total Impact \$/kWh	\$ 11.50 0.96	per year at 7,200 kWh per month at 600 kWh
Totals Summary by Rate Schedule									
1 - Residential	3,027,146,801	318,295,506	43.95%	4,836	0.0016	0.0000	0.0016		
2 - Small Power	862,057,260	93,716,571	12.94%	1,424	0.0017	0.0000	0.0017		
3B/3C - General Power	1,772,932,899	150,577,217	20.79%	2,288	0.0013	0.0000	0.0013		
4B - Large Power	1,448,943,628	99,424,500	13.73%	1,511	0.0010	0.0000	0.0010		
5B - Mines 46/115 kV	86,593,959	5,568,668	0.77%	85	0.0010	0.0000	0.0010		
10 - Irrigation	17,775,708	1,456,361	0.20%	22	0.0012	0.0000	0.0012		
11B - Wtr/Swg Pumping	184,346,482	11,311,332	1.56%	172	0.0009	0.0000	0.0009		
14B - Mines 115 kV	-	-	0.00%	-	-	0.0000	-		
15B - Universities 115 kV	114,899,718	6,821,126	0.94%	104	0.0009	0.0000	0.0009		
17B - Manuf. (8 MW)	-	-	0.00%	-	-	0.0000	-		
30B - Manuf. (30 MW)	530,864,595	28,646,857	3.96%	435	0.0008	0.0000	0.0008		
6 - Private Lighting	12,020,112	1,976,194	0.27%	30	0.0025	0.0000	0.0025		
20 - Streetlighting	46,417,572	6,436,299	0.89%	98	0.0021	0.0000	0.0021		
Total	8,103,998,734	724,230,631	100.00%	11,004					

**San Juan Generating Station  
Impact of BART Technology**

future test year included AFUDC  
move the cost of lost generation to fuel expense -  
first year only

SCR's - 100%					
	Unit 1	Unit 2	Unit 3	Unit 4	Total
Total Capital	194,101	209,652	261,954	242,377	908,084
Lost Generation	(15,667)	(15,667)	(23,674)	(23,674)	(78,682)
Net Capital	178,434	193,985	238,280	218,703	829,402
AFUDC	(16,853)	(18,318)	(22,481)	(23,874)	(81,326)
Construction Costs	161,581	175,667	215,799	195,029	748,076
O&M	5,252	5,406	7,363	7,155	25,176
Lost Generation	15,667	15,667	23,674	23,674	78,682

Sorbent Injection - 100%					
	Unit 1	Unit 2	Unit 3	Unit 4	Total
Total Capital	7,927	7,927	12,206	12,206	40,266
Lost Generation	0	0	0	0	0
Net Capital	7,927	7,927	12,206	12,206	40,266
AFUDC	(283)	(283)	(436)	(436)	(1,438)
Construction Costs	7,644	7,644	11,770	11,770	38,828
O&M	701	701	979	979	3,360

Total - 100%					
	Unit 1	Unit 2	Unit 3	Unit 4	Total
Total Capital	202,028	217,579	274,160	254,583	948,350
Lost Generation	(15,667)	(15,667)	(23,674)	(23,674)	(78,682)
Net Capital	186,361	201,912	250,486	230,909	869,668
AFUDC	(17,136)	(18,801)	(22,917)	(24,110)	(82,964)
Construction Costs	169,225	183,311	227,569	206,799	786,904
O&M	5,953	6,107	8,342	8,134	28,536
Lost Generation	15,667	15,667	23,674	23,674	78,682
PNM Share	50.0%	50.0%	50.0%	50.0%	38.5%

Total - PNM Share					
	Unit 1	Unit 2	Unit 3	Unit 4	Total
Total Capital	101,014	108,790	137,080	98,014	444,898
Lost Generation	(7,834)	(7,834)	(11,837)	(9,114)	(36,618)
Net Capital	93,181	100,956	125,243	88,900	408,279
AFUDC	(8,568)	(9,301)	(11,459)	(9,282)	(38,609)
Construction Costs	84,613	91,656	113,785	79,618	369,670
O&M	2,977	3,054	4,171	3,132	13,333
Lost Generation	7,834	7,834	11,837	9,114	36,618

Revenue Requirement					
	Unit 1	Unit 2	Unit 3	Unit 4	Total
Return on Rate Base 8.56%	7,246	7,849	9,744	6,818	31,658
Tax Gross-up	2,953	3,199	3,972	2,779	12,904
Return of Rate Base - 20 years	4,659	5,048	6,262	4,445	20,414
Operating Expenses	2,977	3,054	4,171	3,132	13,333
Revenue Requirement	17,835	19,160	24,149	17,174	78,308

Total 2010 Annualized Revenue 724,231  
Percent Increase in Revenue Requirement 10.8%

MWh In 2010 8,103,999  
Incremental fuel cost 36,618  
Increase Fuel Factor \$/kWh 0.0045

Totals Summary by Rate Schedule							
	kWh	Revenue	% of Total Rev	Impact \$k	Impact \$/kWh	fuel Impact \$/kWh	total Impact \$/kWh
1 - Residential	3,027,146,801	318,295,508	43.95%	34,416	0.0114	0.0045	0.0159
2 - Small Power	862,057,260	93,716,571	12.94%	10,133	0.0118	0.0045	0.0163
3B/3C - General Power	1,772,932,899	150,577,217	20.79%	16,281	0.0092	0.0045	0.0137
4B - Large Power	1,448,943,628	99,424,500	13.73%	10,750	0.0074	0.0045	0.0119
5B - Mines 48/115 kV	86,593,959	5,568,668	0.77%	602	0.0070	0.0045	0.0115
10 - Irrigation	17,775,708	1,456,361	0.20%	157	0.0089	0.0045	0.0134
11B - Wtr/Swg Pumping	184,346,482	11,311,332	1.56%	1,223	0.0066	0.0045	0.0112
14B - Mines 115 kV	-	-	0.00%	-	-	0.0045	0.0045
15B - Universities 115 kV	114,899,718	6,821,126	0.94%	738	0.0064	0.0045	0.0109
17B - Manuf. (8 MW)	-	-	0.00%	-	-	-	-
30B - Manuf. (30 MW)	530,884,595	28,646,857	3.96%	3,097	0.0058	0.0045	0.0104
6 - Private Lighting	12,020,112	1,976,194	0.27%	214	0.0178	0.0045	0.0223
20 - Streetlighting	46,417,572	6,436,299	0.89%	696	0.0150	0.0045	0.0195
Total	8,103,998,734	724,230,631	100.00%	78,308	-	-	-

Without fuel Impact  
\$ 81.86 per year at 7,200 kWh  
6.82 per month at 600 kWh  
With fuel Impact  
\$ 114.39 per year at 7,200 kWh  
9.63 per month at 600 kWh

Actual Cost of capital as of June 2010

Line No.	Component	A	B	C	D
		Total Capitalization Base Period	Percentage of Total Capitaliza tion	Capital Component Cost	Weighted Average Cost
1	Long Term	1,055,740	47.49%	6.78%	3.22%
2	Preferred S	11,529	0.52%	4.62%	0.02%
3	Common E	1,155,693	51.99%	10.25%	5.33%
4	Total	<u>2,222,962</u>	<u>100.00%</u>		<u>8.56%</u>

	Tax gross up
debt	3.22%
preferred	0.03%
common'	<u>8.82%</u>
Total	12.07%

	Net Plant	Total	North	South	FERC	Excluded
1	Production	1,160,229,283	889,116,008	96,165,196	61,549,133	113,398,946
2	Transmission	271,404,976	133,578,738	17,671,080	116,244,909	3,910,249
3	Distribution	624,973,113	572,760,728	51,980,919	231,466	0
4	G&I	<u>103,009,473</u>	<u>82,835,287</u>	<u>8,886,336</u>	<u>8,972,030</u>	<u>2,315,820</u>
5	Total Net Plant	<u>2,159,616,845</u>	<u>1,678,290,761</u>	<u>174,703,531</u>	<u>186,997,539</u>	<u>119,625,015</u>

369,670,115  
31.86%